



# Federal Emergency Management Agency

Washington, D.C. 20472

W-02084

December 12, 2002

MEMORANDUM FOR: WYO Principal Coordinators

FROM:

Anthony S. Lowe   
Administrator  
Federal Insurance and Mitigation Administration

SUBJECT:

Lapse of Statutory Authority for the NFIP

My memorandum of November 25, 2002, informed you the statutory authority to issue flood insurance policies pursuant to the NFIP ends December 31, 2002.

Attached is a memorandum dated December 12, 2002, instructing the NFIP Servicing Agent how to proceed in regard to handling new applications and increased coverage requests received during the hiatus in statutory authority. We similarly suggest you consider ways to avoid costly, confusing, and inconvenient return of premium payments to your policyholders.

During the hiatus period, since we understand that WYO companies will work to hold premiums, normal cash receipts will be affected. WYO companies should plan to pay refunds, all claims, and claims related expenses from letter of credit drawdowns rather than from any premium receipts that may be deposited in their restricted accounts during the hiatus.

We will inform you when Congress has extended the NFIP statutory authority.

Enclosures




# Federal Emergency Management Agency

Washington, D.C. 20472

December 12, 2002

MEMORANDUM FOR: Laurie Michie  
Project Officer  
NFIP Servicing Agent Contract

FROM: Anthony S. Lowe   
Administrator  
Federal Insurance and Mitigation Administration

SUBJECT: Lapse of Statutory Authority for the NFIP

My memorandum of November 25, 2002, informed you that the statutory authority to issue flood insurance policies pursuant to the NFIP ends December 31, 2002.

We expect that the new Congress will re-authorize the NFIP early in the term, but there will be a hiatus where we will not be able to issue new policies, issue increased coverage on existing policies, or issue renewal policies. We also expect that when Congress re-authorizes the NFIP, it will be retroactive to January 1, 2003.

My prior memorandum included two notices that were to be sent to policyholders whose policies were expiring on and after January 1, 2003. Enclosed is an additional notice that the NFIP servicing agent is to send to applicants whose new business applications or increased coverage endorsement requests are received on and after January 1, 2003.

We want to emphasize that even during the hiatus, claims for losses occurring during the hiatus, on existing policies and on policies issued based on premiums that were received prior to the hiatus, are to be processed and paid without delay.

We will inform you when Congress has extended the NFIP statutory authority.

Enclosure

**Notice 3**  
**[New Business or Coverage Increase Endorsements]**

You are applying for flood insurance or an increase in coverage from the National Flood Insurance Program (NFIP), a government insurance program that is administered by the Federal Emergency Management Agency (FEMA).

The NFIP operates under authority from Congress that has to be renewed periodically. As of December 31, 2002, that authority has expired and is awaiting Congressional renewal. Until such renewal is granted, the premium you are paying will be held by FEMA.

FEMA will hold your premium in order that your policy or coverage increase can go into effect at the earliest date, consistent with the receipt of premium and waiting period rules of the NFIP and the extension of authority for the NFIP. For applications made in connection with a mortgage loan, if, as FEMA has requested, renewal of the authority to issue flood insurance policies under the NFIP is granted retroactively, your policy will be issued effective as of the date of the closing of your loan. If Congressional renewal is granted retroactively, any claim for insurable losses you suffer from that effective date onward will be honored by the NFIP, even if the authority is granted after the date of such losses.

If Congressional renewal is not granted within a reasonable period after Congress reconvenes, FEMA will refund your premium. In such an event, and provided that you do not purchase alternative flood coverage, you will not have had the protection of flood insurance during this period and will be at risk for any damage to the property caused by flood.

Please note, you are under no obligation to purchase your flood insurance from the NFIP. You may choose to purchase flood insurance elsewhere if other providers are available in your area. If your purchase of insurance is due to your lender's requirement, then any other provider is subject to your lender's approval.



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Federal Emergency Management Agency

# NEWS

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## **FLOOD INSURANCE PROGRAM “OPEN FOR BUSINESS” AND NOT THREATENED BY REAUTHORIZATION GLITCH, FEMA SAYS**

WASHINGTON – Officials of the Federal Emergency Management Agency (FEMA) today moved to reassure property owners that their flood insurance policies will not be affected by a brief interruption of certain legislative authorities before Congress reconvenes in early January.

Federal Insurance and Mitigation Administrator Anthony S. Lowe, who oversees the National Flood Insurance Program (NFIP), said, “We’re quite optimistic that this will have no adverse impact on policyholders. Similar interruptions have happened before and were remedied without hindering our operations or affecting people’s coverage and there’s no reason to think this will be different.”

Lowe and other top FEMA officials are working with Congress, federal banking regulators, insurance companies and agents and other stakeholders to put a mechanism in place that will avoid any disruptions when the NFIP’s current authorization expires on December 31, 2002.

On November 22, Congress adjourned without certain aspects of the NFIP having been reauthorized. Although this has no effect on the vast majority of flood insurance policyholders, whose coverage will remain in effect during this hiatus, it does affect the NFIP’s ability to write new policies and renew existing ones. While FEMA is confident that Congress will move quickly to fully reauthorize the NFIP when it reconvenes on January 7, 2003, and will do so retroactively to January 1, any such limited interruption is of concern to property owners who need to renew policies in early January, home-buyers who must purchase flood insurance as a condition for obtaining mortgages from federally regulated lenders, and property owners refinancing existing mortgages who must purchase or renew such coverage.

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## FLOOD INSURANCE PROGRAM – Add ONE

In a letter to banking regulators today, Lowe said FEMA has advised its contractors and the insurance companies that write and service policies under the NFIP that any premium payments for new and renewal policies received after December 31, 2002 are to be held, and policies not issued until authority to enter into new flood insurance contracts has been reestablished by the Congress.

Records of policy application and premium receipt dates are to be maintained by the NFIP and the insurance companies writing coverage under the NFIP, to assure effective dates of coverage as soon as possible following re-authorization and minimize or eliminate any impact on property owners.

FEMA is working with Congress to provide reauthorization retroactively to January 1, 2003. Such retroactive authorization has been done for the NFIP in similar circumstances in the past, Lowe said. Once reauthorization occurs, the NFIP will honor all effective dates for flood insurance policy coverage during the hiatus, including the start of applicable waiting periods and having a policy in force as of a loan settlement date. Thus, any flood insurance claims will be appropriately honored once authority is reestablished.

Lowe and other NFIP officials have emphasized that this hiatus will have “no effect whatsoever” on most of the 4.4 million flood insurance policyholders nationwide. Policies in force will remain in force, and claims under those policies can continue to be paid after January 1, 2003. Even with the temporary lapse in authority, new policies can be written and existing policies can be renewed if the premiums are received prior to January 1, 2003, and claims under those policies can be paid after December 31, 2002.

“There is no reason for alarm on the part of property owners, including new home buyers who are scheduled to close in early January,” Lowe said. “This situation has the full attention of everyone involved in the NFIP, and we are all resolved to make sure that everything is in place to guarantee that, with Congress’ help, our operations will continue seamlessly for new and current policyholders alike.”



## House Committee on Financial Services

**For Immediate Release:**

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### **Oxley, Frank to Introduce Legislation to Reauthorize Flood Insurance Program**

House Financial Services Committee Chairman Michael G. Oxley (OH) and incoming Ranking Member Rep. Barney Frank (MA) announced today that they will introduce legislation next year to reauthorize the Federal Emergency Management Agency's (FEMA) national flood insurance program.

Chairman Oxley and Rep. Frank are working in a bipartisan effort with colleagues in the House and Senate, as well as with the Administration, to quickly reauthorize FEMA's national flood insurance program which expires Dec. 31, 2002.

Certain mortgage agreements require lenders to maintain flood insurance. The reinstatement of this program is imperative to prevent disruptions for policyholders, homeowners, lenders and insurers.

The bill, to be introduced by Oxley and Frank when Congress returns early next year, will reauthorize FEMA's authority to offer the program and address any lapses in coverage.

Click [here](#) to see the draft legislation.